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REPORT OF THE EXPERT GROUP MEETING ON REGIONAL AND SUBREGIONAL ECONOMIC INTEGRATION AND COOPERATION AMONG DEVELOPING COUNTRIES

Held at the Palais des Nations, Geneva
from 3 to 5 December 1991

This report has been prepared by the UNCTAD secretariat. It does not purport to be a comprehensive account of the different points of view expressed by the participants during the meeting, nor does it necessarily reflect the views of the UNCTAD secretariat.

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I. LIST OF PARTICIPANTS

II. AGENDA

LIST OF ABBREVIATIONS

ACC	Arab Cooperation Council
ACU	Asian Clearing Union
ALADI	Latin American Integration Association
AMU	Arab Maghreb Union
APEC	Asia Pacific Economic Cooperation process
ASEAN	Association of South-East Asian Nations
CACM	Central American Common Market
CARICOM	Caribbean Community
CEAO	West African Economic Community
EAEG	East Asian Economic Grouping
EEC	European Economic Community
ECOWAS	Economic Community of West African States
ESCAP	Economic and Social Commission for Asia and the Pacific
GDP	gross domestic product
GCC	Cooperation Council for the Arab States of the Gulf
LAFTA	Latin American Free Trade Association
MRU	Mano River Union
NICs	newly industrialized countries
OAU	Organization of African Unity
OPEC	Organization of Petroleum Exporting Countries
PTA	Preferential Trade Area for Eastern and Southern Africa
R and D	research and development
RCI	regional and subregional economic integration and cooperation
SAARC	South Asian Association for Regional Development
UDEAC	Central African Economic and Customs Union

INTRODUCTION

1. Independent experts and representatives of intergovernmental organizations participated in their personal capacity in an Expert Group Meeting on Regional and Subregional Economic Integration and Cooperation (RCI) among Developing Countries, held in Geneva, Switzerland, from 3 to 5 December 1991. The list of participants is contained in annex I.

2. The purpose of the Meeting was to discuss, exchange views and advise the Secretary-General of UNCTAD on the process of regional and subregional economic integration and co-operation among developing countries in particular, and generally on interregional economic cooperation in the light of recent momentous changes in the international environment. The agenda of the Meeting is contained in annex II. The deliberations of the experts, summarized in this report, were wide ranging, reaching convergence on some issues and divergent positions on others.

3. A number of documents prepared by the UNCTAD secretariat served as background material for the Meeting. These included "Review of the economic integration experience of ALADI, ASEAN, CACM and ECOWAS" (UNCTAD/ECDC/217, 3 July 1991) and "Regional and subregional economic cooperation and integration among developing countries in the 1990s: adjusting to new realities" (UNCTAD/ECDC/Misc. 95)

4. The report is divided into five chapters. The first chapter provides a survey of the changing realities in the international scene and discusses the responses which are being evolved to accommodate these changes in so far as regional and subregional economic integration and cooperation among developing countries is concerned. The next three chapters dwell on the process of RCI respectively in Asia, Africa and Latin America and the Caribbean. The last chapter discusses some issues relating to interregional economic cooperation among developing countries.

Chapter I

NEW REALITIES AND NEW DIRECTIONS

5. The participants in the Expert Group Meeting expressed the view that the RCI process among developing countries should be reappraised and its future evolution charted against the backdrop of the momentous global changes of recent years, and on the basis of lessons learnt from past experience, especially in the 1980s.

A. New realities

6. Towards the end of the 1980s and the beginning of the 1990s, dramatic and spectacular changes in the international scene, both political and economic, have taken place. These included:

(a) the sweeping changes in the configuration of political power in the world, with the end of 'super power' rivalry as a result of political disintegration in Central and Eastern Europe, and the collapse of the former Union of Soviet Socialist States and the system of government therein ;

(b) the world-wide trend towards the adoption of market- and export-oriented models of development ;

(c) the growing integration of the world economy reflected in the internationalization of production and financial markets, the rapid evolution of technology and the increasing importance of transnational corporations in global production and trade ;

(d) the establishment of, or the proposals for, the creation of trading blocs around the main global economic centres -- the United States, European Community Economic (EEC) and Japan -- and the consequential trend towards the integration of markets around these centres ; and

(e) the growing diversity of developing countries reflected in the widening economic gap between East Asia and the less dynamic subregions of Asia, Africa and Latin America.

7. These changes have generated new thinking, new attitudes and new approaches regarding the development problematique. In the developing world, the search for a fresh vision of development which is consistent with the new realities was manifested in their external economic policy reforms. Four main strands of policy adjustments which are gaining prominence in the developing world were noted by the participants in the Meeting.

8. One strand of policy adjustments focuses on enhancing the effective integration of developing countries into the world economy. This mainly relates to the switch from inward import-substitution-oriented policies to outward export-oriented and market-based policies of development with all their inherent features such as the liberalization of trade, deregulation of domestic economies, freeing of prices and removal of subsidies, free currency convertibility, privatization of State-owned production and marketing enterprises and liberal investment laws to encourage more foreign investment.

9. A second strand of policy reforms focuses on efforts to join existing trading blocs formed among developed countries, to be associated with them or to propose the creation of new trading blocs with them. The ongoing negotiations on the establishment of a North American free trade area between Canada, United States and Mexico and the hope of other countries in the region to follow suit is one example. Similar discussions are taking place between the Cooperation Council for the Arab States of the Gulf (GCC) and EEC and between the Arab Maghreb Union (AMU) and EEC on closer economic cooperation, including preferential trade

agreements. This trend typifies the ambition of many developing countries to secure a better deal with their major trading partners than would otherwise be the case from the discriminatory preferences that such blocs provide, and to safeguard their national interests concerning trade access, investment and aid.

10. A third strand of policy adjustments focuses on consolidating and accelerating the process of regional and subregional economic integration and cooperation among developing countries. Fresh thinking is being brought to bear on the nature, scope and character of RCI, and on the priorities and directions of policies in the period ahead, all of which are generating new momentum to the process. Member States of regional and subregional economic integration and cooperation groupings -- such as the Caribbean Community (CARICOM), the Economic Community of West African States (ECOWAS) and the Association of South-East Asian Nations (ASEAN), to name only a few of them -- have revised and updated their strategies, programmes and instruments of cooperation with a view to accelerating the attainment of the objectives laid down in their constituent treaties. In some cases, such as in ASEAN and ECOWAS, the original treaties themselves or the objectives therein are being revised and improved upon.

11. A fourth strand of policy reforms focuses on reviving economic cooperation among developing countries on a global scale. New efforts of this nature included the establishment of the Summit Level Group for South-South Consultation and Cooperation (Group of 15) which is forging ahead in launching a number of initiatives for fostering and strengthening cooperation among developing countries. These efforts are also being directed towards increasing the international community's awareness of South-South cooperation as an essential component of a viable development strategy for developing countries, such as the South Commission's Report entitled "The Challenge to the South".

B. RCI experience in the 1980s

12. In retrospect, the RCI process among developing countries suffered a major setback in the crisis period of the 1980s. Economic integration and cooperation groupings in all developing regions were confronted with difficult circumstances such as an acute lack of financial resources. Their institutional framework and cooperation mechanisms also proved inadequate to meet the crisis which member countries experienced in their external sectors. Moreover, trade and financial flows within groupings declined strongly and multilateral payments, clearing and credit arrangements collapsed or functioned at a low ebb.

13. It seemed evident to many participants in the Meeting that it was the critical shortage of foreign convertible currencies, juxtaposed with growing external debt and debt-service obligations, which was a major factor in the setback to RCI. It forced many developing countries to expand exports to areas with freely convertible currencies, primarily in developed countries, and to impose drastic import cuts from neighbouring developing countries as a strategy for conserving scarce foreign exchange to pay for the most essential imports, which tended to be available mainly in the developed countries. The exception to this experience was in South-East Asia where, even without formal institutional arrangements, regional trade and investment developed at an accelerating pace.

14. Several participants expressed the view that, for many developing countries, the international liquidity shortage was attributable in major part to the collapse of -- and persistently depressed -- commodity prices. It was stated that between 1980 and 1988, the commodity-dependent developing countries (excluding OPEC and NICs) suffered a terms of trade loss of US$ 130 billion or an annual average loss of US$ 16 billion. The rate of decline was even greater after 1989 because commodity export prices fell sharply and were now much lower in real terms than during the depression of the 1930s and the 1980-1982 slump which triggered the international debt crisis.

15. Some scepticism was expressed about the extent of the dynamic effects of RCI among developing countries, especially in terms of market integration. It was noted that even in the largest of integration groupings of developing countries, their combined gross domestic product (GDP) was relatively small. For instance, it was mentioned that the total GDP of the 16

countries of ECOWAS is smaller than that of Denmark; that of the 17 countries of the PTA is about 60 per cent of South Africa's GDP; and that of ASEAN, which includes some dynamic countries, is barely larger than Australia's GDP. Given the limited market size of these groupings of developing countries, it was argued that the integration of national markets through the creation of free trade areas and customs unions should no longer be the central feature of the RCI process.

16. Other participants, however, felt that the above pessimistic assessment of the RCI process should be qualified to take into account several factors. In the 1980s there were major difficulties in the world economy as a whole. Paradoxically, it was pointed out, RCI tended to make progress when the world economy was conducive to growth and development, as happened in the 1970s when trade and financial flows among developing countries were expanding. It was the 'sickness' of the international economic environment, rather than flaws in the rationale of RCI, which was a major factor affecting its momentum in the 1980s.

17. Furthermore, the support of developing countries for the spirit and objectives of RCI remained intact throughout the 1980s. The fact that only a very few developing countries do not belong to one or another regional or subregional economic integration and cooperation grouping was underscored by several participants in the Meeting. Why should this be so, the question was posed, if the overall result regarding RCI has been negative?

18. Most participants expressed the view that the performance of the RCI process among developing countries should not be subjected solely to an economic test as its rationale is multi-faceted and not exclusively economic. There are many motivations which encourage neighbouring countries within a region or subregion to group themselves together. In fact, wider political and cultural objectives are -- and could be -- pursued within the framework of RCI, such as education and training, health, science and technology, social and cultural cooperation, physical infrastructure development, protection of the environment (such as combating marine pollution or desertification), joint management of common resources (like river basins, coastal zones) and reduction of regional political tensions and conflicts.

C. RCI in the period ahead

19. The participants in the Meeting expressed the view that the changing international environment gave added relevance to, and provided new opportunities for, strengthening the RCI process among developing countries and enhancing its contributions to fulfilling development objectives.

20. On the political front, it was noted that there is growing recourse by the international community to international dialogue and negotiations in resolving global problems. In this context, the advantage of belonging to regional and subregional groupings where there tends to be greater strength in numbers cannot be overemphasized. Developing countries in particular would first need to secure greater leverage and more bargaining power by joining and acting together, rather than negotiating individually, if they are to promote more effective pursuit of their national and mutual interests in international negotiations such as those on structural adjustment, debt repayments, trade access or other issues. The experience of ASEAN countries in conducting regular dialogues, within the framework of ASEAN, with their major development partners such as EEC was referred to as a positive model which other regional and subregional groupings may wish to emulate.

21. On the economic front, the participants felt that the potential for realizing the dynamic impact of regional market integration should not be discounted. In the past, there has been strong resistance to preferential reduction of tariffs within trade liberalization programmes of integration groupings for various reasons, such as the fear of loss of tariff revenue or damage to domestic industries. Consequently, regional trade liberalization programmes have had to be tortuously negotiated, their implementation often delayed and their impact has been mostly negligible. Such resistance, however, is being eroded in the new context of overall import liberalization which is becoming the fashion in developing countries. It provides an atmosphere conducive to the acceleration of meaningful trade liberalization at regional and subregional levels. Indeed the launching and deepening of trade liberalization programmes of

integration groupings is crucial, against the background of overall liberalization, to ensure that regional producers continue to maintain some competitive edge over external imports. Such trade liberalization also has the added advantage of tackling problems of non-tariff barriers and, as a new element, it could also act as a building block for global liberalization of trade. It was emphasized that there was a possibility for progressing from subregional to regional and finally to interregional freer trade.

22. In addition, it was suggested that there was significant potential for smaller countries within groupings to benefit from the trading opportunities being made available from the opening up of large economies within subregions and from closer integration with them. This was possible, for example, in South Asia which has a potentially large regional market. It was pointed out that the middle class in this subregion numbered over 200 million people, which is more than the combined middle class population of France, Germany and the United Kingdom. In developing regions, enlarging the size of the internal market through regional and subregional trade liberalization could well tilt the balance for economies of individual countries towards being more competitive. Moreover, it was noted that even developed countries whose individual economies are quite large are also emphasizing wider economic space as a key factor in their growth and development.

23. Some participants underlined that for market integration within regional and subregional groupings to be successful, it needed to be complemented by a range of other measures involving cooperation and integration in the areas of production (industry, agriculture, energy, food) to promote the development and diversification of production bases, including through establishing networks of industries serving both regional and global markets; the mobilization of resources, both domestic and foreign, for investment into cross-border infrastructural -- especially transport -- development; marketing and distribution cooperation, such as through the encouragement of direct cooperation among economic operators (businessmen, industrialists, and traders); and the building of conducive monetary and financial structures such as capital market development to mobilize and channel domestic and foreign resources for investment, trade financing on competitive and affordable terms and the strengthening of clearing and payments arrangements (see subsection (2)).

24. Several participants added that the wave of economic reforms in developing countries included liberalization in the financial sector, such as the liberalization of exchange restrictions and movements towards greater currency convertibility. It was suggested that such liberalization improves the scope for tackling the question of investment within the context of the RCI process through the development of capital markets and financial institutions. It also enhanced the prospects for the establishment or improvement of regional development banking, regional venture and equity funds, regional stock markets and regional investment funds through wider spread of risks and investment portfolios emanating from the wider, financially liberalized, regional area. CARICOM, for example, is currently in the process of setting up a regional investment fund to encourage investment into new productive activities in its subregion. Financial deregulation within a region would also contribute to enhancing the mobilization of savings from the region and outside sources for investment, as well as help reduce capital flight from the region.

25. The view was expressed that it was important that trade and financial liberalization policies as well as more generally outward orientation of economies should be consistent with long-term integration objectives. Outward orientation which takes place within the framework of regional integration processes could be seen as improving capacities to achieve economies-of-scale and international competitiveness, thereby increasing participation in regional and global markets. If, on the other hand, outward orientation was at the expense of long-term integration objectives, as appears to have been the case in the 1980s, it would tend to retard the achievement of development objectives.

26. In addition, individual participants in the Meeting drew attention to a number of areas in which they felt the role of RCI could be enhanced, and these are summarized below.

1. Structural adjustment and aid

27. The view was expressed that the country-by-country approach to structural adjustment and stabilization has been one factor responsible for the disastrous deterioration of terms of trade of many developing countries, since it had the effect of setting countries into self-defeating competition with each other. This approach was considered to be unproductive even for its immediate purpose of laying the foundations for sustainable growth in the individual country concerned. A change in approach is required which would take into account the impact of structural adjustment programmes on neighbouring and other developing countries.

28. Adjustment programmes should not be inimical to the RCI process. In this regard, the following steps were proposed: giving consideration to the RCI dimension right from the initial designing stages of structural adjustment programmes; increasing efforts to harmonize macro-economic and sectoral policies within regions to reduce negative cross-border effects which may arise from structural adjustment; ensuring, within the overall outward-oriented structural adjustment approaches, that some regional trade preferences with regard to the flows of goods, services and factors are maintained; and designing appropriate structural adjustment packages which address the previously mentioned steps in practical and operational terms. It was stated that awareness about the regional dimension to structural adjustment was growing among the developing countries and the donor countries and agencies.

29. A provoking suggestion made by some participants in the Meeting was that participation in the RCI process could be made a performance criterion (part of "good governance") qualifying a country to balance-of-payments support, debt reduction and other concessions in international negotiations for financial support. This criterion should routinely be included in the discussion of aid consortia and consultative groups. Other participations, however, felt that an additional layer of conditionality was not in the interest of developing countries. They argued that, without an expressed desire for reforms within the Governments, any attempts to buy reforms, such as making collaboration in the RCI process a conditionality, was not likely to be sustainable in the long-run.

2. Multilateral clearing and payment arrangements

30. With regard to multilateral clearing and payment arrangements, it was noted that the operations of most arrangements had collapsed during the 1980s. The main problem in such cases, as in the Central American Clearing House, was the appearance of persistent debtor-creditor positions in intra-regional trade. The removal of this problem, it was stated, was imperative for the effective functioning of most multilateral payment and clearing arrangements.

31. The participants in the Meeting advanced several proposals for overcoming the persistent debtor-creditor problem. One proposal was the promotion of production and exporting capacities in the less advanced countries members of regional and subregional groupings which are usually the countries that build up cumulative deficits in regional trade. It was underscored that structural changes were an essential condition for a durable solution to the problem of structural imbalances in intra-regional trade.

32. The countries with large surpluses in intra-regional trade also have a role to play. Mechanisms should be established to encourage them to: increase imports from deficits countries; provide long-term credits to deficit countries; or make investments in productive activities in deficit countries. However, it was pointed out that countries acquiring surpluses in intra-regional trade are often themselves in heavy foreign-exchange shortage against the rest of the world. This provided a strong and urgent case for external financial support to multilateral clearing and payment arrangements.

33. It was also argued that external support -- both financial and technical -- to clearing and payment arrangements should be rendered by regional development banks, international financial institutions and developed countries with experience in this area, such as EEC. The latter was already providing technical and financial support for the revitalization of the Central American Clearing House.

34. Mention was also made of the value of new mechanisms by which operations of clearing arrangements could be strengthened. An example was the launching of PTA travellers cheques with settlement carried out through the PTA clearing house (see also paragraph 70). A more radical proposal was to take up one of Keynes's proposal of injecting liquidity to facilitate trade expansion by the creation of a currency or 'bancors'. Regional development banks could examine the feasibility of creating regional 'bancors' to finance intra-regional trade. In time, a South bancor could be evolved from the regional ones, if the latter prove successful, for facilitating interregional trade.

35. Several participants added that the phenomenon of persistent debtor-creditor positions in intra-regional trade indicated unequal distribution of the integration benefits among countries of different economic size. There was a tendency for the polarization of the benefits in the more advanced countries. It was thus important to establish arrangements for spreading the benefits around, particularly towards the less advanced countries. The options in this regard should not necessarily focus on fiscal compensation schemes for loss of tariff revenue, but should rather emphasize direct measures in the areas of finance and technical assistance to promote productive activities and expand export capacities.

3. Trading blocs

36. Most participants in the Meeting were of the opinion that an issue of topical interest in the coming years would be the establishment of close economic ties between developing and developed countries at the regional and subregional levels. This may involve the formation of trading blocs. Major impetus towards this trend in Latin America was being generated by the North American free trade area initiative. The 'Enterprises for the Americas' initiative of the United States, though still at the talking stage, is also adding momentum to this trend as one of its main proposals is the creation of free-trade agreements between the United States and Latin American countries. Developing country groupings, such as AMU and GCC, are also negotiating closer economic linkages with major developed countries as previously mentioned in paragraph 9.

37. Another form of cooperation between developing and developed countries at the regional and subregional levels may centre on economic policy cooperation for mutual benefit. This approach was exemplified by the Asia Pacific Economic Cooperation (APEC) process which is concerned with consultation, cooperation and co-ordination on marco-economic policies (see also paragraph 48).

38. The trend towards regional and subregional integration and cooperation between developing and developed countries has both positive and negative implications. Some of the benefits would include: enhanced bilateral donor support for development projects of developing countries such as their process of mutual economic cooperation and integration; and enhanced dynamic benefits of market integration such as trade, investment and technology transfer from preferential trading and investment programmes. The potential negative effects would include: the alienation and marginalization of developing countries which are not members of any cooperation arrangement centred around major developed countries; and the fragmentation of the world trading system away from the ideal of a single unitary trading system to some kind of a federal system composed of semi-autonomous blocs which are co-existing, some times uneasily, with one another. The participants in the Meeting agreed that implications of the formation of trading blocs on developing countries deserved in-depth analysis.

4. Cooperation between groupings

39. Many participants in the Meeting stressed the value of cooperation among regional and subregional integration and cooperation groupings. There was much for groupings to learn from each other's experiences. There was also a need to examine how best to promote economic linkages among groupings. East Asia was likely to remain the area of dynamic economic growth and expansion in the 1990s. Less dynamic regions of Asia, Africa and Latin America would stand to benefit by making efforts to be more closely integrated with East Asia. A number of suggestions were made to promote greater interaction between groupings, including

institutional arrangements whereby the capital-surplus NICs could be encouraged to invest in productive sectors in less dynamic developing subregions, and reciprocal trade preferences exchanged on an across-the-board basis.

40. Regionalism also provided a basis for facilitating the development of successful export-oriented industries. It was argued that the export of NICs, particularly the Republic of Korea, was based on a kind of import-substitution for export-promotion strategy. This involved the establishment of export industries, after carefully analysing their potential, which began producing by importing all needed inputs and then gradually reducing the import content of the exported goods. The initial problems encountered in identifying and developing such industries for developing countries which are now pursuing similar paths could be alleviated through regional cooperation within and between integration groupings.

5. Science and technology cooperation

41. The view was expressed that inter-developing-country scientific and technological cooperation should be increased, especially as a number of developing countries now have a fairly well-developed scientific research establishment. The provision of tertiary training, R and D, and higher education institutions, for some developing countries, are best organized on a regional basis, especially where numbers to be trained are too small for justifying a national training facility and when the cost of establishing such a national facility is high. It would include, for example, the establishment of regional higher education institutions (universities), centres of excellence (research bodies), vocational and training centres in specialized fields.

42. Scientific and technological cooperation among developing countries is important for facilitating the development of technological capacity in a regional context, especially in less advanced countries or subregions, and also for enhancing human resources development. It is important too for addressing the crucial problem of food self-sufficiency, especially in the context of Africa, which has a rapidly growing population. Improvements in the production of food could be developed through the establishment of regional agricultural research and demonstration stations which conduct R and D in seeds, fertilizers and pesticides and whose results are widely distributed for application by member countries.

6. International support

43. Several participants in the Meeting expressed the view that active support from the international community for the RCI process should be evolved as part of overall support for the process of South-South cooperation which is geared to increasing the developing countries' participation in, and contribution to, the world economy as a whole. Major donor countries and international financial institutions needed to consider channelling financial aid to individual regional and subregional groupings in support of their various integration and cooperation programmes and projects. Such support can be instrumental in enhancing the viability of such activities in view of the general paucity of financial resources available to the groupings.

44. In this connection also, it was agreed that one way of expanding intra-regional trade was by extending the scope of 'triangular transactions' financed by industrialized countries. Such transactions are already familiar in the case of food aid such as the purchase of maize surpluses from Zimbabwe for food aid to Zambia -- in this way helping both countries simultaneously. The scope for the extension of such transactions to financial aid, and the consideration of the mechanisms that would be needed, should be examined. In a similar context, another proposal related to counterpart funds which arise not only from food aid (which was the origin of the initial interest) but also from financial aid. These funds now represent considerable magnitudes. It was thus suggested that such counterpart funds accruing to countries which take part in regional cooperation schemes could be earmarked to support such schemes and to cover intra-regional trade balances, if needed.

45. The point was also made that the role of the regional development banks and the United Nations regional economic commissions in promoting regional integration and cooperation should be strengthened. These institutions in the past have given limited support to the proc-

ess of RCI in their regions. This lack of support, it was suggested, arose from the limited budgetary resources of these institutions or from a deliberate act of policy. It would appear that the Governments members of these institutions (including developed countries), which formulate the main policy guidelines of these institutions, have not been convinced of the benefits of supporting the RCI process among developing countries.

46. A case for international support for the RCI process among developing countries, however, can be made as, ultimately, it is in the interest of the global community. It can only be made through education, persuasion and, above all, through showing that the disadvantages to Governments will be more immediate than the advantages of not supporting RCI. Priority should thus be placed on re-examining the advantages of RCI and disseminating the findings to developed and developing countries more aggressively than in the past. There is already some evidence of a willingness in member Governments of regional development institutions to increase support for RCI. For example, the Economic Commission for Africa, the African Development Bank and the United Nations Development Programme are jointly providing financial and technical assistance to OAU in support of its efforts on the establishment of an African Economic Community (see also paragraph 71).

Chapter II

REGIONAL AND SUBREGIONAL ECONOMIC INTEGRATION AND COOPERATION IN ASIA

47. The discussions by the participants in the Meeting on the RCI process in Asia were focused on South and South-East Asia which, it was suggested, had been rejuvenated by three emerging interconnected developments.

48. The first development was the APEC process, an Australian initiative which was launched in 1988 with the support of the United States. The APEC process brings together 15 Pacific Rim countries including Australia, Canada, Japan, New Zealand, United States and several developing East-Asian countries such as the Republic of Korea and China, which joined only recently. The APEC process was regarded as an initiative geared to the creation of a Pacific Rim entity which would pursue cooperation objectives, especially regarding close consultation on economic policies.

49. The second development was the East-Asian Economic Grouping (EAEG), first proposed by Malaysia. The EAEG envisaged an Asian grouping covering ASEAN plus the other East Asian countries of the Pacific Rim such as Japan, but not the non-Asian trans-Pacific countries such as the United States. The EAEG proposal immediately came into conflict with the APEC process since it was seen by some countries, especially those that were to be excluded, as detracting from the more open APEC process. As a compromise, the original proposal has been downgraded from a trade bloc concept to that of a consultative forum on economic policy to be known as the East-Asian Economic Caucus but, even in this diluted form, the idea is still meeting with resistance.

50. The third development was the idea of promoting a pan-Asian grouping covering South and South-East Asian countries proposed by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP). The aim was to set up a facility in ESCAP which would bring together the Asian countries and encourage them to interact on economic matters. There has, however, been opposition to this initiative. Several ESCAP member countries view its pan-Asian exclusiveness as yet another attempt to detract from and derail the APEC process.

51. Apart from the new ideas concerning formal arrangements for economic integration and cooperation, it was pointed out that trade and financial flows within the Asian region are increasing as a result of market forces. Japan, for example, had been investing in the region for quite some time and continued to do so. Taiwan (Province of China) has been investing some of its surplus capital in the Philippines and Indonesia, while Thailand and its entrepreneurs are now seeking new areas of opportunities for investment, particularly in mainland China. Surplus capital from the Republic of Korea was moving into the East-Asian region in search of cheap labour and investment opportunities. Hong Kong and even India were also increasing their capital flows to other countries within the region. It has thus become increasingly evident that the major source of capital investment into the South-East Asian region was from within the region.

52. This process of increasing regional economic interactions and integration without formal arrangements brings a crucial dilemma to the forefront of the RCI process. On the one hand, formal regional institutional arrangements may not necessarily be essential for export success and concomitant production diversification, as suggested in the experience described in the preceding paragraph. On the other hand, some participants in the Meeting considered that formal regional institutional arrangements are required to ensure that structural adjustment is carried out by the more advanced Asian countries (the NICs), moving out of traditional labour-intensive manufacturing industries and moving up-market into more technologically advanced industries and capital goods production; and leaving the vacated industries to be developed by the 'new' NICs of Asia and other countries which are moving into the export-oriented manufacturing sectors.

53. The participants in the Meeting also examined the performance of two existing subregional groupings, namely ASEAN and the South Asian Association for Regional Cooperation (SAARC). ASEAN, it was suggested, has not achieved much in the 'hard core' economic issues. Intra-ASEAN trade makes up only a fraction -- less than 10 per cent -- of total trade of the region and has also been expanding at a slower rate -- 4 to 5 per cent -- than the region's total exports. Moreover, although ASEAN had developed several regional investment plans, progress towards establishing joint industrial projects has been limited. A major impediment was the negative attitude of member States towards granting preferential market access to the products of each industrial project.

54. ASEAN has, however, been attempting to improve its performance in the economic sphere, and some of the recent initiatives in that direction include: the approval by the Fourth ASEAN Summit, in January 1992, of the creation of an ASEAN free-trade area within 15 years. ASEAN was also taking new measures to improve its institutional structures and external cooperation with its major trading partners and aid donors.

55. It was noted that South Asia is being left out of the economic alliances that were being evolved globally. Some participants in the Meeting expressed the view that, apart from India, which as a major economic power may be invited to join some of these emerging economic alliances, other countries of Southern Asia (Bangladesh, Pakistan, Sri Lanka) would face the danger of being marginalized. It was suggested that such a trend could be avoided through formation of closer economic links between South Asia and East Asia now that there was a strong case for such cooperation as the South Asian countries are adapting more market- and export-oriented development policies.

56. It was further suggested that the best way in which South Asian countries could link up into the wider Asian region as well as to the world was to strengthen their regional economic integration and cooperation process. This means strengthening SAARC so that it would make effective contribution to South Asian countries in diversifying their production structures, stimulate growth and gradually, as their potential as a market became manifest, cement their relationship with South-East Asian countries.

57. SAARC also has other potentials. Political tensions in the subregion have been occurring and are likely to continue. SAARC, as a regional entity, could play a major role in moderating these tensions. Likewise, South Asia, like other developing subregions, was characterized by low levels of intra-regional trade flows. SAARC could provide the institutional framework to stimulate and strengthen trade among South Asian countries. As a start in this direction, it was proposed that the SAARC countries could begin with the implementation of an across-the-board tariff margin of preference for selected local products. Such a move would not only increase intra-regional trade, given the existing high national tariff structures, but would give the right signals to economic operators to focus more on regional investment and trade.

58. SAARC, which was established six years ago, has only recently launched discussions on trade cooperation. Some participants in the Meeting pointed out that the economic size of India could be a major barrier to the incorporation of trade into the SAARC agenda for cooperation. The economic dissimilarities between India and other SAARC States such as Sri Lanka are particularly acute. This may create imbalances if there were intra-regional liberalization of trade: for example, products from India could flood the market of other SAARC countries.

59. Therefore, what was needed, it was stressed, was for India to play the lead role in carrying forward the recent endeavours towards trade cooperation in SAARC. For example, in the current process of unilateral liberalization of market access by India, special attention could be given to products of interest to other SAARC countries. Such an act could go a long way in reducing the psychological barrier to trade cooperation and help build confidence in SAARC. Smaller countries also need to be convinced of the economic rationale of SAARC for them. For example, access to the Indian market for products of other SAARC countries could give a substantial boost to their trade.[1]

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[1] In this connection, the SAARC Summit of Heads of State in Colombo (Sri Lanka) in December 1991 agreed to the creation of a preferential trade area.

60. Some participants in the Meeting observed that a major asset of SAARC in the context of its relations with the rest of the world was cheap labour. This asset could be exploited to enable SAARC countries to enhance their integration into the wider Asian region as well as globally. Nevertheless, it was also underscored that cheap labour was only cheap in relation to its efficiency. Cheap labour that was unproductive was not cheap but expensive. In this connection, the link between labour productivity and technology was stressed as also was the need for cooperation in building technological capacities in SAARC and also in other subregional groupings of developing countries.

61. As far as West Asia was concerned, the view was expressed that, although pan-Arab identity as a driving force exists, subregional economic integration has had very meagre results. The League of Arab States, for instance, had made very little progress towards its objectives of economic and financial integration, especially the establishment of an economic union. The major obstacle to economic integration and cooperation has been the various political uncertainties in the region including those arising between Arab countries. Two subregional groupings have been established to promote economic integration, namely the Arab Cooperation Council (ACC) and GCC. ACC, however, following its establishment in February 1989, was subsequently undermined by the political crisis in the Persian Gulf between Kuwait (a member of GCC) and Iraq (a member of ACC).

62. The Asian region, it was pointed out, had a degree of success in financial cooperation. Some participants in the Meeting noted that the smoothly functioning Asian Clearing Union (ACU) has played a useful role in supporting regional financial and trade integration and cooperation among its member States. ACU has also launched new initiatives which were strengthening its operations, such as the creation of a swap arrangement facility. It could play an even greater role in promoting regional economic cooperation if its current membership was extended to include other non-member Asian countries.

Chapter III

REGIONAL AND SUBREGIONAL ECONOMIC INTEGRATION AND COOPERATION IN AFRICA

63. It was generally accepted that RCI, including in terms of integration of national markets, is an essential condition for the development of African countries. Larger internal market size and economies-of-scale are essential for supporting the economic expansion and sound industrial development of the mostly small economies of African countries. In addition, the legacy of colonial influence, particularly in West Africa, which fostered the development of inter-linked enclaves for supplying raw materials to the metropolitan centre, had rendered regional integration and cooperation indispensable for the newly independent African countries emerging from such enclaves.

64. Yet, it was also argued that the economic rationale for RCI in Africa requires some critical scrutiny as intellectual doubts still persisted about the extent of its contribution to growth and development in Africa. In the first place, the theory of enlarged market potential was not particularly evident. For example, the countries with the largest economies -- such as Ethiopia, Nigeria, Sudan and Zaire -- have been experiencing declining economic performances in recent years, while the best economic performances were recorded by the smaller countries such as Mauritius. In the second place, the economies-of-scale argument was also weak. In Africa there were only a few industries in which such economies-of-scale could be realized. In the third place, there have been very few concrete results emerging from the process of RCI in Africa despite the evident strong political support it receives from African countries. Proponents of this view nevertheless agreed that there is potential for regional integration and cooperation among African countries in some selected economic sectors such as food, energy and infrastructure.

65. Several examples of the formation of subregional groupings in Africa were cited. The creation of the Central African Customs and Economic Union (UDEAC) was based on a desire to maintain a certain cohesion among French-speaking countries of the subregion. The main aim of these countries was to maintain the system of common economic management established between them under French colonial administration. However, the UDEAC countries have progressed further towards building a common monetary system whereby they have one central bank and one monetary policy authority. In addition, the UDEAC countries apply generalized customs preferences among themselves and they have harmonized their tax systems. Besides this, it was pointed out that UDEAC has survived several *coup d'états* which took place in a number of its member States.

66. As regards West Africa, mention was made of the confluence of different colonial and ethnic backgrounds which led to the establishment of numerous intergovernmental organizations for economic integration and cooperation. There are three integration organizations in the region, namely: the 16 member State ECOWAS, the 7 francophone member State West African Economic Community (CEAO) and the 3 anglophone member State Mano River Union (MRU). The membership of ECOWAS consists of the membership of CEAO and MRU. All these three groupings share the same ambitious goal of economic union.[2] In addition to these multisectoral groupings there are numerous specific sectoral cooperation organizations, such as those for cattle development, control of drought and desertification and cooperation on health.

67. The proliferation of organizations for integration and cooperation in West Africa raised two major problems, particularly for countries that were members of more than one organization, namely: (i) co-ordination of the activities of the various organizations at the national and regional levels became extremely difficult; and (ii) the payment of annual financial contributions to all these organizations became a heavy burden for the countries concerned. Recently, on

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2 It was noted that CEAO and to some extent MRU, the smaller groupings, have been more successful in promoting RCI than ECOWAS in the past. For example the share of trade among CEAO countries in their total exports is higher than the comparable ratio for ECOWAS countries as a whole.

the basis of a rationalization study, the 1990 Summit of Heads of State of ECOWAS adopted a decision designating ECOWAS as the sole entity for economic integration and cooperation in West Africa. This decision, it was noted, implied the absorption of both CEAO and MRU into ECOWAS. The exact nature of such a merger is yet to be determined.

68. In Southern Africa, PTA, which is not a preferential trade area as such but an economic integration grouping, is making a conscious effort to learn from the problems of others and from its own experience. Considerable progress has been achieved by PTA in the field of trade liberalization and facilitation as well as monetary and financial cooperation. In line with the spirit of the PTA Treaty, a Trade and Development Strategy has been elaborated which establishes the priority sectors for development with a view to transforming PTA into a common market by the year 2000.

69. PTA has also been considering, among other things, the adoption of special measures in favour of economically less advanced member States to ensure that they also benefit from regional integration. It furthermore recognized that the main actors of economic integration are the business community and, although the latter were not involved in the formation of PTA, considerable efforts have subsequently been made to incorporate them into PTA activities in order that they become better informed of trade liberalization measures and can take advantage of these measures, as well as contribute to policy making regarding RCI. For example, with the help of the business community PTA revised its rules of origin provision, which had been found to be too restrictive.

70. Another example of continual adaptation within PTA was the PTA Clearing House. Its operations have improved owing, among other measures, to the launching of PTA travellers cheques which were being widely used throughout the PTA region. Consequently, it was noted that the bulk of intra-regional trade (above 50 per cent) was being channelled through the Clearing House and the proportion of transactions settled in convertible foreign currency had dropped considerably from 85.7 per cent in 1985 to 33.7 per cent in 1991. Further plans are being developed for channeling all PTA trade through the clearing house. PTA was also preparing for monetary harmonization and a detailed time-table had been established for this purpose which covered: (i) establishment of equilibrium exchange rates, (ii) reduction of fiscal deficits to a certain level, and (iii) monetary harmonization by the year 2000.

71. The beginning of the 1990s has seen new initiatives being launched to strengthen the process of RCI in Africa. For example, as noted earlier, ECOWAS was addressing the problem of proliferation of integration and cooperation organizations in West Africa and PTA was preparing for monetary harmonization. Most significantly, the OAU Heads of State and Government met in Abuja (Nigeria) in June 1991 and adopted a Treaty establishing an Africa Economic Community over a period not exceeding 35 years following the Treaty's entry into force. A number of participants in the Meeting noted that this initiative was not only a sign of renewed political interest, as it had involved considerable background political negotiations, but it was also part and parcel of the broader endeavour being undertaken by subregional groupings to give new impetus to economic integration and cooperation among African countries.

72. It was also noted, as a positive sign, that the international community was paying greater attention to the role of RCI in promoting development in Africa. Institutions such as the World Bank which have traditionally entertained doubts about the relevance of regional integration were now beginning to develop activities in this area.

73. Another example of growing international support for the concept of economic integration and cooperation among African countries was exhibited during the Maastricht Conference of the Global Coalition for Africa (July 1990), in which EEC agreed to play the role of "animateur" for discussions on regional cooperation. In this connection, it agreed to prepare a paper on RCI for the next meeting of the Global Coalition for Africa in May 1992. EEC undertook this task for several reasons which placed it in a better position to measure progress made in terms of successes and failures in regional cooperation, namely: EEC itself is an example of a successful regional integration and cooperation grouping; it has an operational experience of 15 years; and it is sympathetic towards RCI efforts of developing countries. Nevertheless, it was pointed out that the example of EEC should be used to draw from its experiences and not to serve as a model to be emulated by the African countries.

74. Some participants in the Meeting stressed that this new phase of adjustment in the process of RCI in Africa must focus on maintaining the momentum which has recently been generated. This requires strong political will and support of countries which will be forthcoming only if RCI is perceived by the leaders and peoples as being in their national interest. It also requires improving and consolidating the process of RCI in priority sectors, including the following:

(a) Adoption of appropriate procedures for progressing towards market integration, including especially integration on a gradual basis in selected products with intra-regional trade potential such as fuels and food. It was stressed that maintaining food security is a political imperative in many African countries. In addition, trade liberalization needed to be coupled with integration and cooperation in industrial development and investment. Promotion of investment could be pursued through regional investment forums, establishment of regional investment offices (which develop projects, bring investors together and promote investment) and the harmonization of national investment codes and laws ;

(b) Enhancing progress towards financial and monetary cooperation through strengthening of multilateral clearing arrangements, improving the availability and volume of trade credits for intra-African as well as extra-African trade, addressing the problem of over-valuation of some local currencies which impeded competitiveness, and other issues related to co-ordination of monetary policies ;

(c) Establishment of compensation schemes if needed to compensate countries, especially the less advanced States members of groupings, for tariff revenue losses arising from their participation in intra-regional trade liberalization ;

(d) Enhanced cross-border cooperation in the rehabilitation and development of transport and communication networks ;

(e) Strengthening institutional capacity building which supports regional integration including, where appropriate, a rationalization of cooperation institutions ;

(f) Greater involvement of people in forging closer regional and subregional links through the creation of mechanisms for social and cultural cooperation and through the establishment of regional parliaments ;

(g) Increasing the involvement of major economic actors (the business sector) in fostering closer regional economic ties by encouraging and inviting them to participate in regional negotiations on trade, as well as to assist in the implementation of decisions adopted at regional levels ; and

(h) Making participation in integration and cooperation activities more flexible so that countries can join the process after it has started without too much difficulty.

Chapter IV

REGIONAL AND SUBREGIONAL ECONOMIC INTEGRATION AND COOPEATION IN LATIN AMERICA AND THE CARIBBEAN

75. It was observed that the RCI process in Latin America and the Caribbean flourished in the post World War II period. During that period multi-sectoral integration organizations were instituted, without exception, to promote import-substitution development at the regional level. They had two main features: regional trade expansion through trade liberalization and regional industrial development through complementary industrial agreements.

76. On the mainland the Latin American Free Trade Association (LAFTA), established in 1960, was the forerunner of the integration organizations. LAFTA, however, encountered two major difficulties: firstly, LAFTA countries ran out of items to liberalize and trade in, given that most industrial products were protected under national import-substitution policies. Secondly, a few countries, especially the larger ones such as Argentina, Brazil and Mexico, were seen to be the major beneficiaries of the industrial agreements.

77. The dissatisfaction with integration under LAFTA led to its replacement by the Latin American Integration Association (ALADI) in 1981, and to the formation of the Andean Group in 1969 by the smaller countries of LAFTA. Both the Andean Group and ALADI attempted to hasten the pace of trade liberalization and promote balanced regional industrial development. Nevertheless, both organizations had limited success mainly because, as in the case of LAFTA, many products for trade and industrial development were still excluded from intra-regional trade and industrial schemes. It was noted that this stalemate was again due to strong national protectionist tendencies.

78. The Andean Group, for example, adopted an industrial programming scheme which was based on the granting of monopoly rights to selected member States for establishing certain regional industries. However, all member States wanted to set up all the proposed industries. Thus the three regional industries identified -- namely, petrochemicals, automotive parts and steel -- were never really established. The Andean Group also attempted to harmonize external economic policies of member countries within the framework of the Andean Finance Corporation, but this met with limited success. Financial cooperation was finally launched in the form of the Andean Reserve Fund which distributed its Andean Pesos among member central banks according to their needs for current account transactions.

79. The RCI process in Central America was co-ordinated by the Central American Common Market (CACM) which was established in 1961. The Central American integration process advanced rapidly towards the formation of a common market which expanded intra-regional trade and industrial output. One reason behind this success, some participants in the Meeting suggested, was the fact that the Central American region had a small industrial base. Hence the application of a regional import-substitution model did not conflict drastically with vested national interests. Unfortunately, in the 1970s and later in the 1980s, political problems within the region stifled and thwarted the RCI process in Central America.

80. In the Caribbean, the Caribbean Free Trade Area (CARIFTA) was established in 1967 to promote regional cooperation. CARIFTA, it was suggested, faced similar problems to those experienced by the integration groupings in mainland Latin America regarding trade liberalization. It was subsequently transformed in 1973 into CARICOM.

81. During the 1970s, the pursuit of import-substitution policies become increasingly inconsistent with regional integration. Some participants in the Meeting pointed out that, owing to the emphasis on import-substitution, countries were generally not opening up to intra-regional trade. Instead, they were adopting policies to protect their internal markets for their local industries as well as supporting these industries in exporting their output to other neighbouring countries.

82. This policy prescription was also pursued within subregional groupings whereby member States endeavoured to promote, whenever possible, the exports of their national industries. It generated tension among the member States, especially between the less advanced countries on the one hand and the more advanced countries on the other; the former group of countries were constantly attempting to minimize the domination of intra-regional trade by the latter group of countries. These tensions acted against intra-regional trade liberalization and blocked progress in regional market integration. In addition to these internal problems, the debt crisis exploded in the 1980s and the combined impact was a drastic decline of the RCI process in Latin America and the Caribbean.

83. Towards the end of the 1980s and the beginning of the 1990s, several processes had evolved which gave new vitality to the whole process of RCI in Latin America and the Caribbean. Two such developments, as mentioned earlier, were the North American free trade area proposal and the 'Enterprise for the Americas' initiative of the United States. It was suggested that the fear of being excluded from the United States market or being disadavantaged has stimulated the interest of most Latin American countries in these proposals for the establishment of free trade agreements with United States. For example the four-nation Southern Cone Common Market, a new grouping formed in March 1991, was considering accepting as a group the free trade area proposal of the 'Enterprises for the Americas'. Other groupings in the region are also reviewing this United States' initiative.

84. Arising from the above process and from other developments in the world economy, perceptions of the opportunities offered by regional integration and cooperation are changing. It was noted that, within the overall trend towards general liberalization and the dismantling of protectionist barriers maintained under import-substitution policies, many countries are now willing to consider reducing their list of products which are excluded from preferential treatment. Thus, the intra-regional trade liberalization process could be accelerated and consolidated.

85. Several participants in the Meeting indicated that RCI is now being viewed as covering a wide spectrum of issues and not just trade. CARICOM, for example, had striven to extend the dimensions of regional integration and cooperation beyond pure trade concerns. In addition to efforts geared to developing a common market -- such as a common external tariff, harmonization of fiscal incentives and common rules of origins -- CARICOM is also aiming to establish a regional court of appeals, stimulate political cooperation through the formation of a regional Assembly (Parliament), and support greater people participation. In the latter respect, a West Indian Commission of Eminent Persons was appointed to consult with a wide spectrum of social groups on their role in the integration process and to make recommendations.

86. CARICOM's manifold activities also cover the following areas: free movement of people, establishment of a Caribbean Investment Fund, formation of one regional university, common disaster assistance institutions and common approaches to international negotiations (such as with United States on the Caribbean Basin Initiative or EEC on the Lomé Convention), environmental issues and security arrangements. Another sector which offers scope for regional cooperation through CARICOM is tourism, one of the most rapidly growing export industries in the Caribbean.

87. The progress in Latin American financial integration, reflecting the trends of general economic integration, has also been modest. The Andean Reserve Fund and the ALADI clearing arrangement have been able to operate at modest levels without encountering serious difficulties. The Central American Clearing House and the CARICOM clearing facility, however, had suspended their activities as a consequence of the unsustainable accumulation of arrears within these arrangements. In recent years, with the assistance of EEC, the Central American Clearing House was being revitalized; the CARICOM facility, however, continues to be suspended.

88. Reviving and strengthening the RCI process in Latin America and the Caribbean will be a major task in the 1990s. Among the essential requirements for fulfilling this task, the participants in the Meeting singled out the following (some of which are already being implemented):

(a) Reappraisal and replacement of the traditional approach to RCI based on import-substitution by a more open approach that is consistent with the general trend towards greater liberalization and integration into the world economy ;

(b) Greater regional cooperation in enhancing the current process of privatization and deregulation, especially of public utilities (telecommunications, airlines) ;

(c) Greater co-ordination of macro-economic policies at the regional level, such as on national policies pertaining to agricultural subsidies and exchange rates ;

(d) Establishment of regional investment funds to develop new productive activities, such as the ongoing effort to create a Caribbean Investment Fund.[3] The Fund will provide capital investment for new productive activities for exports to national, regional and international markets ;

(e) Greater cooperation on environmental issues in the light of growing domestic concern over this sector. There is an attempt currently to create a regional organization to protect the Amazon area ;

(f) Increasing support for the development of economic and trade relations among the border areas of developing countries sharing common territorial land borders. The border areas are natural trade blocs as they tend to be better integrated with one another through border trade. Their development could act as a catalyst for broader economic cooperation among the countries involved ; and

(g) Establishing an open multilateral forum among the Latin American and Caribbean countries involved to debate more seriously and less emotionally the problem of drugs.[4] Although dealing with the problem of drugs was a global one, meaningful dialogues cannot take place easily between individual Latin American (producer) countries and the United States (a consumer) owing to sensitivities regarding domination of the dialogues by the latter. There was thus a need for a more open multilateral framework.

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3 Following the development of a common investment code, especially in terms of profit remittances, negotiations will be launched by CARICOM with international financial institutions and institutional investors to invest in the Fund.

4 It was noted that the the coca and cocaine industries succeeded in establishing, among Latin American and Caribbean countries, close regional networks among producers, consumers and distributors to carry out trading transactions.

Chapter V

INTERREGIONAL ECONOMIC COOPERATION

89. The concept of interregional economic cooperation among developing countries, as in the case of regional and subregional integration and cooperation, has received renewed emphasis in recent years. The formation of the Group of 15 is one sign of this revival.

90. Most participants in the Meeting underlined the continuing relevance of the concept of an integrated developing world, despite some doubts being expressed about it. Firstly, it was noted that the policies of unity, solidarity and enhanced bargaining power in multilateral negotiating forums continued to be crucial to developing countries despite their growing differentiation. The developing countries still needed to collaborate to bring about a reform of the existing global economic system, which gives them a limited or negligible say in the management of the world economy.

91. The largest manifestations in which the developing countries united to speak with one voice and to resolve their differences were in the Group of 77 and the Non-Aligned Movement. The Group of 77, in collecting and collating the various interests of developing countries as a group, was instrumental in developing a single platform for negotiation. It was thus an important framework for developing solidarity among developing countries. Some participants in the Meeting felt that there was no better alternative in prospect.

92. There are also strong economic grounds for greater cooperation among developing countries globally. In the area of trade it was noted that the developed market-economy countries, with less than 25 per cent of the world's population, conduct about 60 per cent of world trade with one another. In contrast, the developing countries, with more than 70 per cent of the world population, conduct less than 10 per cent of world trade with one another. This gap, which cannot be explained by underlying economic conditions nor by comparative advantages, provides a strong basis for further expansion of trade flows among developing countries.

93. More serious effort should thus be given to enhancing interregional trade flows among developing countries. It was stated that since factors such as natural resource endowments do not explain the lack of a high degree of trade among developing countries, this gap may be due to other factors such as historical South-North trading links, language barriers, lack of trade financing and transportation, and communication problems. These missing factors needed to be identified and attended to as a matter of priority.

94. Several participants in the Meeting drew attention to potential areas for interregional cooperation among developing countries. Action on commodities was one such area. In view of very depressed commodity prices, and the related accumulation of large stock overhangs for a number of important commodities, leading developing-country commodity producers should consider joint initiatives they might undertake to arrest this development and reverse it if possible. To facilitate action, which may be crucial for the improvement of the economic situation in the affected countries, many of which are least developed, it was suggested that specific proposals be prepared to achieve a better balance between demand and supply for key products exported exclusively from developing countries -- such as coffee and cocoa -- for which demand is relatively inelastic. Such proposals should cover the different aspects of the commodity-dependent economies, such as investment, production and exports, consumption and its promotion, processing and pricing, and they should contain:

(a) a convincing economic justification in terms of economic benefits, costs and risks, distinguishing each of the main producing and consuming countries ;

(b) a possible financing plan ;

(c) a credible statement of the likely financial outcome of operations for the medium term;

(d) an assessment of supporting measures, such as diversification and productivity increases, needed to make stabilization a long-run success ; and

(e) a scheme of cooperation with relevant agencies, both national and international.

95. Joint action to reduce the high cost of conducting business, particularly in Africa, was another area for interregional cooperation. One of its major causes is the 'missing middle' mode of production: the technology used in production is either very sophisticated or very primitive. Addressing this problem will require changing traditional attitudes which favour expensive technology from the developed countries, partially as a result of foreign aid which is tied to import procurement in donor countries and partially owing to established preferences for products from developed countries. Yet alternative and cheap techniques of production are available in developing countries and could be secured, for example, by African countries from Asian countries. Eliminating this 'prejudice gap' will require collaboration between Governments and enterprises geared to searching for sources of technology in developing countries.

96. Interregional cooperation to overcome the lack of business information about opportunities for trade, investment and technology in developing countries is also important. Often, developing countries are not aware of opportunities for investment and trade in other developing countries which are not their traditional trading partners. This 'ignorance gap' was a major obstacle to economic cooperation among developing countries. Efforts to reduce the gap should be should be strengthened and these could include activities such as meetings of buyers and seller to promote trade transactions, or the establishment of regional business information networks for developing countries.

97. Joint action to improve the transportation links among developing countries is an imperative at the interregional, regional and subregional levels. Existing networks are weak and constitute a major obstacle to promoting economic integration and cooperation among developing countries.

98. Last, but not least, is the development of human resources, which is important for development as a whole as well as for cooperation among developing countries. The main aim should be the development of an adequate reserve of skilled labour in developing countries, particularly through joint interregional policies and programmes for overcoming the low level of education and the lack of a specialized and technically skilled labour force.

99. Some participants in the Meeting felt that affirmative action on the part of developing countries was required in developing further and implementing proposals for cooperation in the areas mentioned above, as well as in other established South-South cooperation initiatives such as the Global System of Trade Preferences among Developing Countries (GSTP) and past proposals such as the Bank for the South initiative. Likewise, issues outlined in the Caracas Programme of Action, adopted by the Group of 77 in May 1981, and new initiatives such as the proposal to create an international trade financing facility to help promote in particular non-traditional exports of developing countries needs to be appraised carefully by developing countries. Work needs to be undertaken to analyse which issues should be given new emphasis and which ones should be discarded.

100. The participants emphasized that the identification and pursuit of areas for global cooperation among developing countries do not mean confrontation with the developed countries. In the past, the Governments of developing countries (and developed countries) have tended to consider South-South cooperation, such as through the Group of 77, largely as a tool for international negotiation. Yet cooperation among developing countries is only one, albeit important, dimension of global cooperation. Cooperation among developing countries needs to be perceived in a positive way as a means of contributing to increasing global economic welfare. International organizations such as UNCTAD have a role to play in this regard in terms of re-examining the rationale for South-South cooperation, providing advisory and technical assistance for such cooperation programmes and mobilizing the necessary international support.

Annex I

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Annex II

AGENDA

1. Opening of session
2. Regional economic cooperation in the 1990s: adjusting to new realities
3. Regional and subregional economic integration and cooperation in Asia
4. Regional and subregional economic integration and cooperation in Africa
5. Regional and subregional economic integration and cooperation in Latin America and the Caribbean
6. Interregional economic cooperation among developing countries